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OF THE DEPARTMENT OF DEFENSE**

**SUMMARY OF
REPORTS ISSUED AND
PARTICIPATION ON MANAGEMENT ADVISORY TEAMS
AND SPECIAL AUDIT/EVALUATION EFFORTS**

JULY, AUGUST, AND SEPTEMBER 2002



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PART I

REPORT SUMMARIES

ACQUISITION PROGRAM

REPORT NO. D-2002-126. Acquisition of the Evolved SEASPARROW Missile. The Evolved SEASPARROW Missile, an Acquisition Category II program, is an improved version of the RIM-7P SEASPARROW missile that will intercept high-speed maneuvering, anti-ship cruise missiles. Ten participating governments are cooperatively developing the program that will cost about \$3 billion. The U.S. share of the program costs is \$255.3 million for RDT&E and \$1.6 billion for procurement.

Overall, the Program warrants management attention in the area of program documentation, including the acquisition program baseline agreement, operational requirements document, and the Command, Control, Communications, Computer, and Intelligence Support Plan, before the full-rate production decision. As a result, the Program Office does not have all the necessary acquisition documents needed to effectively manage program cost and performance, and acquisition decision makers cannot make fully informed investment decisions. Further, the program office will not be able to accurately report the liability for demilitarization and disposal costs for the missiles in Navy financial statements.

REPORT NO. D-2002-138. Allegations Concerning the Management and Business Practices of the Defense Security Service. This report is in response to an anonymous letter to the Assistant Secretary of Defense (Command, Control, Communications and Intelligence), OIG DoD, and other Government officials alleging mismanagement and misconduct at the Defense Security Service (DSS). The Director, DSS who received a copy of the allegations, requested that we evaluate the allegations.

The audit did not substantiate the allegations that DSS was mismanaging headquarters personnel and its management structure, facilities, management reorganizations, personnel assignments, and discipline, or its standards and evaluation and quality management functions. We started an audit in April 2002 to evaluate the contracting and will report on it separately.

REPORT NO. D-2002-143. Acquisition of the Army Land Warrior System. The Land Warrior System is a first generation integrated fighting system for dismounted combat soldiers.

The Program Manager for the System (the program manager) implemented an evolutionary acquisition strategy to develop and produce the System in three sequential blocks to reduce technical risk and to expedite fielding the System's capabilities. In executing the evolutionary acquisition strategy, the following areas require additional management attention:

o The Army had not finalized system requirements in the operational requirements document because the Training and Doctrine Command (TRADOC) System Manager-Soldier was still defining the force structure requirement for the System to accommodate the Army's ongoing transformation to the Objective Force capability. Also, the Army had not fully defined the mix of Land Warrior components that it will provide to soldiers receiving the system. Additionally, TRADOC released a draft operational requirements document for coordination that did not identify reliability as a critical performance parameter for the Block II system. Until the Army completes ongoing efforts to fully define force structure requirements for the System, it will be less able to make informed affordability decisions and to support future budget submissions for the program. Also, the Army may develop and approve a system for production that does not fully meet user requirements.

o The program manager did not insert a suggested provision for performance metrics in the other transaction agreement with the Land Warrior Consortium to measure the benefits of implementing the other transactions agreement. As a result, the program manager will be less able to provide the acquisition community with measurable information on the value of using an other transactions agreement for acquisition programs.

o The delegation agreement between the Agreements Officer for the program office and DCMA, Syracuse, provided limited and vaguely defined requirements for administration support. As a result, the program manager may not obtain timely and meaningful information on Consortium performance against cost, schedule, and performance requirements.

o The program manager had not implemented specified processes, documentation, and reporting requirements in the risk management plan. As a result, the program manager and the Consortium members were not using the risk management plan to promote continuous risk assessment and to timely and effectively inform acquisition decision makers on program risk and risk mitigation.

CONSTRUCTION AND INSTALLATION SUPPORT

REPORT NO. D-2002-137. Bulk Fuel Infrastructure Military Construction and Maintenance, Repair, and Environmental Project Review Process: Navy. Although the 4 bulk fuel-related military construction and 72 maintenance, repair, and environmental projects valued at \$98.3 million were valid requirements, the Navy did not properly validate and prioritize the requirements for each project in accordance with Navy and DoD guidance. The absence of validation reviews at the installation, major claimants and service Control Point levels for all projects increased the risk of the Navy submitting bulk fuel-related military construction projects that are incorrectly prioritized, and bulk fuel-related maintenance, repair, and environmental projects with incorrect requirements and priorities to the Defense Energy Support Center for funding. Establishing policies and procedures to properly review, validate,

and prioritize Navy bulk fuel-related military construction and maintenance, repair, and environmental project requirements should minimize the risk of submitting incorrect project requirements and priorities to the Defense Energy Support Center for funding.

CONTRACTING OVERSIGHT

REPORT NO. D-2002-139. Naval Facilities Engineering Command Environmental Services Contracting. This audit was initiated in response to a complaint to GAO concerning Naval Facilities Engineering Command (NAVFAC) services contracts. GAO referred the complaint to the Defense Hotline. The complaint alleged favoritism in the award of environmental services contracts, questioned the appropriateness of a NAVFAC facilities management contract, and alleged that the NAVFAC Atlantic Division illegally and improperly extended a 5-year environmental services contract for an additional 5 years.

Favoritism in the award of environmental services contracts did not occur and the facilities management contract award was proper. However, there were problems with the extended time frames for contracts. The NAVFAC Atlantic Division did not comply with competition requirements in regulations when it improperly extended environmental services contracts N62470-93-D-3033 and N62470-97-D-5000, with a total estimated value of \$325 million, for 5 years and 2 years, respectively. In addition, NAVFAC headquarters improperly exceeded regulatory 5-year contract limits by including a 7-year limit for four multi-award environmental services contracts with a total value of \$758 million. Neither the extensions nor the 7-year limit were supported by adequate written justification or cost/price analysis. NAVFAC contracting officials made inaccurate interpretations of Federal Acquisition Regulation competition requirements. In addition, NAVFAC headquarters had not developed a strategy to award environmental services procurements and did not coordinate the 1998 multiple award procurement with all its Component divisions. As a result, the Navy did not obtain the benefits from competing the requirements for the environmental services. In response to this audit, NAVFAC notified the two affected contractors on January 14 and 15, 2002, respectively, that it would not exercise further options for environmental remedial contracts N62470-93-D-3033 and N62470-97-D-5000 and would re-compete the contract requirements.

REPORT NO. D-2002-150. Procedures for Selecting Contractor Personnel to Perform Maintenance on Army Aircraft in Bosnia. We performed this audit in response to a request from the Chairman, Subcommittee on National Security, Veterans Affairs, and International Relations, Committee on Government Reform, U.S. House of Representatives, to examine DynCorp International's suitability and capability to perform and its procedures for selecting and screening personnel. The request was based on allegations made in a magazine article that questioned the moral integrity and technical skills of certain DynCorp employees working in Bosnia.

DynCorp International had reasonable procedures for selecting and screening its personnel and provided an acceptable level of maintenance support in Bosnia under the DoD contract. DynCorp International: was not required by the contract or task orders to establish specific personnel hiring practices or conditions for employment; hired sufficient and qualified personnel, evaluated them for technical proficiency, and instructed them on proper conduct; and proved to be suitable and capable to perform the requirements of the contract. DoD acquisition officials reviewed the contractor's suitability and capability to perform the contract during the source selection evaluation process and properly monitored DynCorp International's performance on the task orders for aircraft maintenance in Bosnia. Contracting officials did not and, as a general rule, do not, address the moral character of a contractor's employees. In February 2002, DynCorp imposed additional requirements not required under the contract on its overseas employees regarding personnel behavior.

REPORT NO. D-2002-152. Hotline Allegations Concerning the Procurement of the Seat Management Initiative. We performed the audit in response to allegations made to the Defense Hotline concerning the contracting for the OSD (C³I) Seat Management initiative and the funding of the FirstGov Web site.

In the rush to have GSA award the blanket purchase agreement by November 6, 2001, for the Seat Management initiative, OSD (C³I) inappropriately determined that the requirements of the Clinger-Cohen Act were not applicable to the \$452 million blanket purchase agreement (\$19 million obligated through February 2002). However, we did not substantiate the allegation that pressure was present to transfer by January 19, 2001, funding for the FirstGov Web site. The planning for the Seat Management initiative did not: identify the return on investment for Seat Management, quantify benefits and risks of Seat Management, and prescribe performance measures that would measure how well Seat Management would support DoD programs.

As a result, DoD was unable to assess whether a favorable return on investment and expected performance of the Seat Management initiative were realized on the GSA blanket purchase agreement. On June 28, 2002, OSD (C³I) terminated the blanket purchase agreement for convenience. OSD (C³I) needs to ensure that future information technology procurements for that office, through the GSA or another Federal agency, comply with statutory and regulatory requirements applicable to DoD.

FINANCE AND ACCOUNTING

REPORT NO. D-2002-127. Department of Defense's Compliance With Internal Use Software Accounting Standards. This report provides insight in implementing new or changing guidance from the Financial Accounting Standards Board. Our audit involved OSD, the Joint Staff, and the DoD Field Activities, referred to collectively as DoD Components.

The DoD Components were expensing instead of capitalizing software on the financial statements. The DoD Components did not comply with the reporting requirements of the Statement of Federal Financial Accounting Standard No. 6, "Accounting for Property, Plant, and Equipment," and the Statement of Federal Financial Accounting Standard No. 10, "Accounting for Internal Use Software." Only two of the six DoD Components visited reported capitalized software on the DoD FY 2000 and FY 2001 DoD Agency-Wide Financial Statements. As a result, the DoD Components understated the software asset account (1830) by at least \$44.6 million in FY 2000 and at least an additional \$10.3 million in FY 2001. In addition, DoD Components erroneously expensed at least \$188.7 million in FY 2000 and at least an additional \$102.8 million in FY 2001. More specific guidance from USD(C)/CFO on accounting for internal use software and a system to capture the cost would improve the accuracy of the reported amounts on the financial statements.

The DoD Components did not have subsidiary ledgers to support the amounts reported in the general ledger. As a result, they did not have the necessary information to calculate software depreciation and to support the reported values for internal use software. Complying with DoD regulations for property accountability should provide the information needed to calculate and support reported values for software depreciation and internal use software.

REPORT NO. D-2002-128. Promptness of FY 2002 Fourth Quarter DoD Payments to the Department of the Treasury for District of Columbia Water and Sewer Services. The audit was conducted in response to Public Law 106-554, the Consolidated Appropriations Act of 2001. The Act requires the inspector general of each Federal agency that receives water and sewer services from the District of Columbia to report to the Congressional Appropriations Committees on the promptness of payments within 15 days of the start of each quarter.

DoD Components, except Fort Myer, promptly made fourth quarter FY 2002 payments to the Department of the Treasury for District of Columbia water and sewer services. The Department of the Treasury withdrew \$230,000 from the Army on July 1, 2002, to pay the District of Columbia for second, third, and fourth quarter water and sewer services to Fort Myer. Army officials dispute the appropriateness of the withdrawal for Fort Myer, because Fort Myer discontinued receiving water services from the District of Columbia in 1999. Also, WHS paid \$89,000 for Arlington National Cemetery's fourth quarter FY 2002 water and sewer bill as required by Public Law 107-20. The Navy and Air Force Components have credit balances from prior overpayments and were not required to make quarterly payments for FY 2002.

REPORT NO. D-2002-130. Accounting and Reporting Processes at Defense Finance and Accounting Service San Antonio. The report identifies noncompliance with DoD requirements to properly support accounting adjustments made to general ledger data, and with U.S. Government Standard General Ledger requirements to correctly record Expended Appropriations.

Of the 683 journal vouchers prepared in September 2001, 21 (totaling \$145.1 million) were reviewed. The 21 journal vouchers did not adequately support accounting adjustments made to general ledger data. Journal vouchers also were approved without adequate

supervisory reviews. Unless the controls over the preparation and review of accounting adjustments are improved, DFAS Indianapolis will continue to receive unreliable financial information to prepare financial statements and reports. Revising the “Standard Operating Procedures for Journal Vouchers” would improve internal controls supporting and approving journal vouchers.

DFAS San Antonio did not record \$2.67 billion in Expended Appropriations for the FY 2001 Army General Fund. DFAS Indianapolis used status of appropriations data in an attempt to populate the Expended Appropriations account and adjust the related equity accounts. However, the Expended Appropriations had \$222 million more using the status of appropriations data rather than DFAS San Antonio general ledger accounts. The Expended Appropriations and the related equity accounts are not recorded in accordance with the U.S. Government Standard General Ledger and the DoD Financial Management Regulation. Therefore, DFAS Indianapolis will continue to prepare financial statements and reports using unreliable data. Initiating system changes to the Standard Finance System would allow for the proper processing of Expended Appropriations at the field accounting site level.

REPORT NO. D-2002-140. Measurement of Water Usage by DoD Components Serviced by the District of Columbia Water and Sewer Authority. The District of Columbia Water and Sewer Authority (WASA) supplies water and wastewater treatment (sewer) services to 16 separate DoD installations, sites, and other organizations in the National Capital Region. Public Law 106-554, the Consolidated Appropriations Act of 2001, requires the inspector general of each Federal agency to audit the agency’s promptness in paying the District of Columbia for water and sewer services.

DoD Components could not determine the accuracy of water meter readings for services provided by the District of Columbia Water and Sewer Authority. There was a need for procedures to inspect, maintain, repair, and replace water meters. At least 27 of 60 water meters were not working properly. As a result, from FY 1990 through May 2001, DoD Components connected to the Federally Owned Water Main were overcharged about \$1.8 million, and the National Park Service was overcharged about \$0.5 million. Furthermore, DoD Components had no assurance as to the accuracy of water and sewer bills ranging from \$29.9 million in FY 2000 to \$2.1 million in FY 2002.

REPORT NO. D-2002-145. Effect of the Raytheon Defense Business Acquisitions on Pension Plans and DoD Funded Pension Assets. This report is a review of the effect of the Raytheon Company acquisitions of E-Systems, Inc., Texas Instruments Defense Systems and Electronics, and Hughes Defense Company on pension plans and DoD-funded pension assets. The acquisitions resulted in \$6.9 billion of pension assets being transferred to the Raytheon Company.

Adequate contractor records that would ensure the Government received proper credit for its share of contributed pension assets under several of the pension plans transferred to Raytheon Company did not exist. The Government is at risk of overpaying or not receiving proper credit for certain contributions made to the pension funds. The Defense Contract Management Agency should request that the Raytheon Company and Raytheon’s certified

public accounting firm correct their respective financial reports for the E-Systems Salaried Plan to report the unauthorized withdrawal of \$7.9 million. The Defense Contract Audit Agency should also review and verify the E-Systems Supplemental Executive Retirement Plan asset balances and record the balances in the E-Systems permanent audit file; review and verify the Texas Instruments pension plan asset balances and record the balances in the Texas Instruments permanent audit file; determine the cost impact to the Government that Hughes caused by not properly segmenting the pension assets transferred as a result of the General Dynamics acquisition in 1992; determine the cost impact to the Government that Hughes caused by not properly segmenting the newly created Direct TV segment from the Government segments in 1994; and revise the pension audit guidance program to require that periodic reviews of Cost Accounting Standard 413.50(c)(7) asset balances are performed.

HEALTH CARE AND HUMAN CAPITAL

REPORT NO. D-2002-141. Implementation of the Data Quality Management Control Program for the Military Health System. This audit supports our annual auditing of the DoD Military Retirement Health Benefits Liability and DoD Agency-Wide Financial Statements.

The military treatment facilities visited did not fully implement Assistant Secretary of Defense (Health Affairs) policy guidance for the Data Quality Management Control Program. The facilities did not adequately prepare or complete the Data Quality Management Control Review List and the Data Quality Statement. Although the Surgeons General were briefed on the results of the program, they had not emphasized training of personnel in the facilities in order to ensure data accuracy and standardization. TRICARE Management Activity needs to adequately implement the Data Quality Management Control Program by initiating a DoD Instruction for program guidance. Then, if the Surgeons General monitor the program and provide training to the program participants, the program should provide the controls needed to ensure that medical provider data are timely and accurate.

REPORT NO. D-2002-144. Civilian Personnel Processing by Regional Service Centers That Service Multiple DoD Agencies. This report focuses on two Regional Service Centers - the DFAS Regional Service Center and the Washington Headquarters Services (WHS) Human Resource Services Center.

The performance by Regional Service Centers was inconsistent when processing personnel actions. The DFAS Regional Service Center adequately processed personnel actions and issued certification lists in a timely manner for the agencies serviced. For example, based on DFAS productivity reports, 96.7 percent of the certification lists prepared in the third quarter of FY 2001 were completed in less than 13 days. However, the WHS Human Resource Services Center did not efficiently process civilian personnel actions. Based on a review of a stratified random sample, we projected that during a 12-month period ending

November 2001, 8.3 percent of the official personnel folders that the WHS Human Resource Services Center maintained had personnel actions with data entry or filing errors, or actions that were not processed by the effective dates. In addition, we projected that for recruitment and promotion actions, 63 percent of the certification lists issued during a 12-month period were not issued within the 20-day goal established by the WHS Human Resource Services Center. As a result, some civilian personnel experienced pay and benefit errors that required correction, and agencies that WHS services stated they had difficulty filling vacancies. Reorganizing the WHS Human Resource Services Center so that the staffing and processing teams are better structured to handle complex civilian personnel actions and position classifications, and establishing management controls over the processing of the personnel actions, should result in more accurate and timely processing. Further, establishing performance goals and measurements and using the results of the performance measurements should help identify areas requiring procedural changes and staff training needs.

REPORT NO. D-2002-153. Reprocessed Medical Single-Use Devices in DoD. The report discusses the potential for significant cost avoidance that may be achieved through the use of reprocessed medical single-use devices.

The military health system used reprocessed single-use devices on a very limited basis during FY 2001. Additionally, three of the six military treatment facilities we visited were reusing single-use devices that had not been reprocessed in accordance with Food and Drug Administration (FDA) guidance, partly because the devices were not identified as single-use devices. After considering patient safety and operational issues, the Assistant Secretary of Defense (Health Affairs) should issue policy regarding the reuse of medical single-use devices in the military health system. The Assistant Secretary should also initiate discussions with FDA with the intent of clarifying single-use device labeling requirements. Also, the Military Department Surgeons General should issue policy consistent with the guidance from the Office of the Assistant Secretary (Health Affairs) and ensure military treatment facility personnel are aware of and trained in the reuse of single-use devices. We recognize that cutting costs without compromising the safety and standards of patient care is a continuous challenge for military health system personnel. If the Assistant Secretary determines that reprocessing is in the best interest of DoD, reprocessing initiatives can result in procurement cost avoidances for military treatment facilities. We determined that the six DoD military treatment facilities could have avoided procurement costs of about \$605,000 during FY 2001 by reprocessing the limited number of devices we sampled. The full extent of potential monetary benefits will be quantifiable after military treatment facilities obtain complete single-use device procurement and usage information, DoD determines its level of participation in reprocessing initiatives, and FDA finalizes its approval process.

INFORMATION TECHNOLOGY RESOURCES

REPORT NO. D-2002-129. DoD Web Site Administration, Policies, and Practices. On February 12, 1999, the Deputy Secretary of Defense approved the Joint Web Risk Assessment Cell's (JWRAC's) Concept of Operations, a plan to use Reserve Components' assets to conduct ongoing security and threat assessments of Components' Web sites for inappropriate information.

As of May 2002, 30 of the 200 disclosures on publicly accessible DoD Web sites that JWRAC identified between April and September 2001 as inappropriate were still available for public viewing. As a result, DoD Web-site owners are not providing consistent levels of assurance that only appropriate information is posted on their publicly accessible Web sites. DoD must require DoD agencies and the Services to remove from public view Web pages that contain information identified as potentially inappropriate in the JWRAC reports. In addition, DoD must establish a mechanism that adjudicates disagreements between JWRAC and Web-site owners on potentially inappropriate disclosures at Web sites. Further, DoD must publish and comply with the standard operating procedures of JWRAC for discrepancy reporting and tracking, and maintain an up-to-date database of reported violations.

REPORT NO. D-2002-133. Global Command and Control System Readiness Assessment System Output Tool. The report discusses the development and fielding of a GCCS candidate solution for the readiness functional area.

The Joint Staff and the Defense Information Systems Agency did not ensure that development of the Readiness Assessment System Output Tool would address user needs. Fielding dates for the Tool slipped at least 5 years, and the potential users were not involved for extended periods. In addition, decisions on application selection were not fully documented. Readiness users and the systems developers would benefit from increased user involvement in requirement validations and testing processes as well as more effective documentation of cost, feasibility analyses, goals, and decisions. The program would benefit with development of concrete and quantifiable performance standards that can be accurately tested as well as a formal report on how the Tool requirements meet performance standards.

REPORT NO. D-2002-135. User Authentication Protection at Central Design Activities. The report explains the extent of transmitting user passwords in plain text while accessing software development environments and the vulnerabilities associated with it.

User names and passwords were transmitted in plain text over unsecured networks on 15 of 26 software development environments at 3 Central Design Activities. As a result, the 15 software development environments have an increased risk of unauthorized access, unauthorized changes to DoD software, and loss of accountability. In addition, all unclassified DoD systems could be similarly affected. Additional policy was needed to ensure authentication information was protected during transmission over unsecured networks. We

had previously reported a similar problem in IG DoD Report No. D-2000-058 “Identification and Authentication Policy.” The Office of the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) had not completed actions to issue policy to address the issue.

REPORT NO. D-2002-142. Government Information Security Reform Act Implementation: Defense Security Assistance Management System. The report discusses our independent assessment of the information security posture of the Defense Security Assistance Management System, a Defense Security Cooperation Agency (DSCA) system.

In our assessment of the System, the DSCA implementation of GISR Act requirements, as reported in the GISR Act collection matrix for FY 2001, was generally accurate as of August 1, 2001, the date of the FY 2001 collection matrix data, with the exception of one response regarding hardware and system software maintenance plans. Although 1 of the 32 responses provided in the collection matrix was inaccurate, we concluded that DSCA was following the standard DoD process to certify and accredit the System. As a result, DSCA was making progress toward achieving full information security accreditation for the System. There was an outstanding issue related to personnel security that had been addressed in IG DoD Report No. D-2001-141, “Allegations to the Defense Hotline on the Defense Security Assistance Management System.” We found that contractor employees were continuing development work on System software while their security clearances were pending.

REPORT NO. D-2002-146. The Defense Advanced Research Projects Agency’s Transition of Advanced Information Technology Programs. Congress and DoD officials have voiced concern that technology has not quickly transitioned to the warfighter. The primary role of DARPA is to act as the technical change leader for the DoD and its mission is to promote revolutionary technical innovations to support our national security.

DARPA has transitioned advanced information technology programs to the military and civilian communities. A review of 17 information technology programs funded at a total of \$280 million from FYs 1999 through 2001 showed that all or parts of 13 programs funded at a total of \$240 million over the same period were transitioned to military and commercial users, two programs were still ongoing, and two programs were terminated. Transition of programs that advanced warfighting capabilities occurred because the program managers were effectively planning, managing, and coordinating with potential users.

LOGISTICS

REPORT NO. D-2002-131. Terminal Items Managed by the Defense Logistics Agency for the Navy. This report discusses compliance with procedures used to ensure that obsolete terminal national stock number (NSN) items are deleted from the DLA supply system.

DLA supply files contained NSNs that could have been deleted because the NSNs supported obsolete Navy requirements. DLA supply files also contained inaccurate Navy user data. A stratified statistical sample of 110 NSNs indicated that 28,023 of 53,455 terminal NSNs were obsolete and actions had not been taken to delete the NSNs from the DLA supply system. The sample also indicated that an additional 8,384 of the 53,455 NSNs were obsolete to Navy requirements, but actions needed to be taken to determine whether there were NATO or foreign government requirements before the NSNs could be deleted. As a result, DLA and the Navy were incurring unnecessary supply management costs. We projected that the Navy could put about \$69 million of funds to better use over the 6-year Future Years Defense Program, FYs 2002 through 2007, by removing the obsolete terminal NSNs identified by this audit from the Navy supply files. The full extent of the monetary benefits will be quantifiable after the obsolete NSNs are deleted from DLA supply files and after NSNs with no NATO or foreign government requirements are identified and deleted from both the Navy and DLA supply systems. Revised DLA procedures for the review of terminal items and controls to remove the Navy as a registered user of DLA-managed obsolete terminal NSNs should ensure that obsolete terminal NSNs are deleted from the supply system.

REPORT NO. D-2002-136. Defense Logistics Agency Aviation Investment Strategy Program. This report evaluates the effectiveness of the DLA investment strategy to improve supply support to aviation weapon systems by increasing the stockage levels of consumable repair parts.

Although the Aviation Investment Strategy program (the program) had merit and should continue, improvements in the execution of the program were needed. Given the dynamics of the supply process and the severe constraints of its legacy automated supply system, DLA faced a formidable task in mediating variable safety level imbalances in aviation repair parts. Since the program began in September 1999 with selection of items for additive investment, DLA has augmented the variable safety level of 6,400 items to achieve an aggregate 85-percent supply availability rate. The augmentation amounted to \$320.2 million more for safety levels than the legacy system provided. The methodology and criteria DLA used to augment the variable safety levels that the legacy system provided were sound. However, DLA did not provide adequate assurance that the computed additive quantities remained appropriate for all items. A random stratified statistical sample of 180 items indicated that 3,375 (53 percent) of the 6,400 items selected for investment in FY 2000 and FY 2001 still warranted the augmented safety levels DLA computed and the remaining 3,025 (47 percent) items either no longer needed an additive safety level quantity or did not warrant their variable safety level augmented as much to attain an 85-percent supply availability rate. As a result, we projected that \$99.2 million of the program funds were potentially well invested and that \$111.6 million could be put to better use by investing in mission-critical items whose safety levels were still insufficient and, therefore, additive investment would improve supply availability and aviation readiness.

DLA, however, recognized that additive increases could be shifted to other items and, subsequent to our review, initiated corrective action. As of January 15, 2002, DLA had removed or planned to remove 19 of our sample items from the program and redistribute \$6.6 million to other items. DLA did not agree with our projection that \$111.6 million of the program funds could be put to better use.

REPORT NO. D-2002-149. Defense Logistics Agency-Managed Items Supporting Air Force Weapon Systems. This report addresses an Air Force concern that national stock numbers (NSNs) supporting Air Force weapon systems were inappropriately deleted from the DLA supply system.

DLA and Air Force Defense Inactive Item Program (DIIP) procedures were not being followed and NSNs required to support Air Force weapon systems has been inappropriately deleted from the supply system. Air Force personnel reviewed 756 NSNs associated with 8 Air Force weapon systems that we judgmentally selected to determine whether NSNs deleted from the DLA supply system were still required. Of the 756 NSNs, the Air Force identified 571 that had been inappropriately deleted from the DLA supply system. As a result, NSNs were not available to support Air Force weapon systems and Air Force weapon system readiness could be adversely affected. Additionally, DLA disposed of assets, valued at \$153,000, that were required to support Air Force weapon systems, and DLA and the Air Force will incur unnecessary supply management costs to reinstate catalog and supply files for inappropriately deleted NSNs. Establishment of controls to comply with existing DIIP procedures should ensure that NSNs are not inappropriately deleted from the supply system.

DLA and the Air Force have taken actions to improve the DLA DIIP process. DLA and the Air Force are in the process of reinstating approximately 20,000 NSNs with Air Force interest that had been deleted from the supply system during the FY 2000 and FY 2001 DLA DIIP processes. Reinstated NSNs will be included in the DLA DIIP in the future. On January 29, 2002, DLA requested that its supply centers not send assets to disposal for those NSNs that had Air Force user interest withdrawn through DIIP. The Air Force has revised its procedures for responding to DLA DIIP transactions.

COOPERATIVE THREAT REDUCTION

REPORT NO. D-2002-154. Cooperative Threat Reduction Program Liquid Propellant Disposition Project. This report discusses topics that international agreements should include.

Although the Defense Threat Reduction Agency (DTRA) obligated \$112.2 million and disbursed \$95.5 million through July 2, 2002, to design and build facilities that would convert heptyl and amyl into commercial products, Russia informed DoD in February 2002 that Russia used the heptyl and amyl for its commercial space program. As a result, the heptyl and amyl

disposition facilities will not be used for their intended purpose. In addition to those costs, DTRA has obligated \$1.2 million for maintenance and security of the heptyl disposition facility while DoD considers the future of the facility.

The Under Secretary of Defense for Policy could reduce program risks by negotiating implementing agreements requiring a commitment from Russia to provide the weapon systems and their components, provide adequate access rights to DoD, and include remedies. By deciding on the future of the heptyl disposition facility, the Under Secretary could reduce U.S. costs by more than \$197,000 a month. The Under Secretary could reduce U.S. costs and increase the cooperative nature of the Cooperative Threat Reduction (CTR) Program by requesting that Russia use the proceeds from the sale of heptyl for CTR Program purposes. The Director, DTRA could have more assurance that Russia will provide weapons systems for disposal by performing more complete inspections of equipment provided to Russia and by identifying other potential uses that Russia may have for weapon systems that Russia has agreed to provide for disposal. The Director, DTRA could help ensure that DoD officials are aware of risks involved with the CTR Program by reporting identified risks to the Under Secretary.

AUDIT OVERSIGHT REVIEWS

REPORT NO. D-2002-6-009. The Army Contract Audit Followup Process. The report explains how to improve the contract audit followup process and therefore maximize the potential savings from more effective disposition of audit findings.

Although the Army generally complied with DoD contract audit followup procedures, the Army needs to improve the reliability of its contract audit followup databases and to correctly and timely pursue repayments, including interest. One settlement we reviewed resulted in a potential Antideficiency Act violation. The Army should create a process for the accurate and complete preparation of Army semiannual reports to improve their reliability. The Army should also include the contract audit followup function as an area of special interest in its FY 2003 Procurement Management Review Program. Increased awareness of debt collection guidance and improved documentation on the status of reportable audits will assist contracting officers to improve their efficiency at dispositioning audit findings. Finally, the Army must conduct a preliminary review to determine whether a potential Antideficiency Act occurred when a contracting officer settled an audit report and did not send the interest payment to the U.S. Treasury.

PART II

PARTICIPATION ON MANAGEMENT ADVISORY TEAMS AND SPECIAL AUDIT/EVALUATION EFFORTS

Summary of the Office of Assistant Inspector General-Audit Participation on Management Advisory Teams

(Area Code 703 unless otherwise indicated)

Acquisition Deskbook Working Group (JOHN MELING, 604-9091)

Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

Acquisition Initiatives Senior Steering Group (TOM GIMBLE, 604-8903)

Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

Anti Terrorism Senior Steering Coordinating Committee (MAJ DAN SNY, 604-9190)

Lead Component: ASD SOLIC JCS J-3

Defense Environmental Safety and Occupational Health Policy Board

(BILL GALLAGHER, 604-9270)

Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

Environmental Security Technology Implementation Committee (BILL GALLAGHER, 604-9270)

Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

Financial Management Modernization Program (DAVID STEENSMA, 604-8902)

Lead Component: Under Secretary of Defense (Comptroller)

Government Information Security Reform Act Information Assurance IPT

(WANDA SCOTT, 604-9049)

Lead Component: Assistant Secretary of Defense (Command, Control, Communications and Intelligence)

Inherently Governmental Integrated Process Team, DoD A-76 Overarching Policy IPT
(ANELLA OLIVA, 604-9323)

*Lead Components: Under Secretary of Defense for Acquisition, Technology, and Logistics and
Under Secretary of Defense for Personnel and Readiness*

Past Performance Integrated Product Team (IPT) (BOBBIE SAU WAN, 604-9259)

Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

Rapid Improvement Team to Develop DLA/Hamilton Sundstrand Strategic Alliance
Relationship (HENRY KLEINKNECHT, 604-9324)

Lead Components: Deputy Under Secretary of Defense(Acquisition Reform) and DLA

Reconciliation of Contracts in MOCAS Integrated Process Team (JIM KORNIDES, 614-751-1400(11))

*Lead Components: Under Secretary of Defense for Acquisition, Technology, and Logistics and
Under Secretary of Defense (Comptroller)*

Reengineering Transportation Task Force Executive Committee: (SHEL YOUNG, 604-8866)

Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics

Single Process Initiative Management Team (MIKE TULLY, 604-9347)

Lead Component: Defense Contract Management Agency

Special Oversight Coordination Group (DAVID STEENSMA, 604-8901)

Lead Component: Inspector General of the Department of Defense

Summary of the Office of Assistant Inspector General-Audit Participation in Special Audit/Evaluation Efforts

Audit Committees:

- Defense Commissary Agency (DAVE VINCENT, 604-9109)
- Defense Contract Audit Agency (PAUL GRANETTO, 604-9101)
- Defense Finance and Accounting Service (PAUL GRANETTO, 604-9101)
- Defense Information Systems Agency (RICHARD BIRD, 604-9102)
- Defense Logistics Agency (PAUL GRANETTO, 604-9101)
- Defense Security Service (BRIAN FLYNN, 604-9489)
- Defense Threat Reduction Agency (LEON PEEK, 604-9587)
- Missile Defense Agency (DAVE VINCENT, 604-9109)
- National Reconnaissance Office (LEON PEEK, 604-9587)
- Working Group for Air Force General Fund (BRIAN FLYNN, 604-9489)

Audit Oversight Workgroup Under the CFO Council Grants Management Committee
(JANET STERN, 604-8750)

Federal Audit Clearinghouse User Group (JANET STERN, 604-8750)

Federal Audit Executive Council Multi-Agency Working Groups:
Government Wide Financial Statements (RICHARD BIRD, 604-9102)

Joint Audit Planning Groups:

- Acquisition Program (MARY UGONE, 604-9002)
- Construction, and Installation Support (KEITH WEST, 604-9202)
- Contracting Oversight (KEITH WEST, 604-9202)
- Quality Assurance Planning Group (KEITH WEST, 604-9202)
- Joint Credit Card Audit Planning Group (JOE DOYLE, 604-9349)
- Environment (BILL GALLAGHER, 604-9270)
- Health Care and Human Capital (MIKE JOSEPH, 757-766-9108)
- Information Technology Resources (WANDA SCOTT, 604-9049)
- Intelligence (CHARLES SANTONI, 604-9051)
- Logistics (TILGHMAN SCHRADEN, 604-9186)

Single Audit “Orange Book” Update Project Team (JANET STERN, 604-8750)